

Speech to Committee for Economic Development

by Robert Amory, Jr.

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Appreciate opportunity.

Most stimulating morning.

NSC has placed on CIA primary governmental responsibility for analysis and evaluation of Soviet Bloc Economy. For this purpose we have an office staffed by professional economists, engineers and area specialists organized into subdivisions analogous to the various functional ministries of the USSR which, as you may know, is a reasonable way to break down any industrial economy. In addition to studying problem industry by industry we have an over-all group dealing with across-the-boards problems, estimating GNP, the shares taken by military, civilian consumption, investment, and the like.

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Good as we feel this team is, it cannot produce results better than the information fed to it.

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But by and large we depend on Soviet-published

statistics and reports and on the observations of competent American travellers.

The gain we derive from the efforts of a group such as we have just heard this morning is highly significant not only for the new information added to our store but also for the guides to evaluation of existing and future data, and most important of all for its insight into the minds of the key managers and planners that help us toward an answer to the most difficult of all intelligence questions, their intentions and aspirations for the future.

The whole exchange program has ample justification in promoting wider mutual understanding but even if this be laid aside, it would be worthwhile solely on the basis of enhancement of our knowledge of the Soviet Economic machinery. And I know of no group, since the program was launched five years ago that has made a more valuable contribution than the one you have heard from this morning. We shall be studying their detailed reports for many weeks.

I should like particularly to congratulate the members of this delegation for the obvious objectivity of their report on the Soviet economy. We in CIA talk to many returned visitors, and objectivity is an uncommon virtue.

This is not surprising for above all else, the USSR is a land of contrasts. The Soviet policy of headlong investment in heavy industry at the expense of consumption has created an economy which clearly is lopsided when viewed through Western eyes. Far too many visitors have been exposed almost exclusively either to the public

opulence or to the private squalor of the country. They then tell us on the one hand that we in the United States have already been overtaken by the USSR in most areas of importance to national power, or on the other hand, that there is no cause for concern, because the Soviet economy lags so far behind our own that even to compare the two is gross folly.

To me, the outstanding finding of the month-long visit to an impressive number of planning organs, research institutes and manufacturing plants concerned Soviet economic growth. As Dr. Stein reported,

"We did not discover that the Soviets had any secret of economic growth. They know that if you put in a large investment in productive facilities, in research, and in education, a high rate of growth will result. They are putting in the investment and getting the growth."¹/

30 per cent rising to 35 per cent of their GNP goes to investment versus 17-20 per cent in ours.

In the success of their drive to overtake and surpass the United States in industrial production, the Soviet leaders are convinced they hold the key to the final victory of communism over capitalism, a victory to be gained by non-military means. Fundamentally they believe a mid-twentieth century industrial society must be managed from the top down by an elite of merit - that it is just too complicated and too scientific to be run from the bottom up from the ballot box and the supermarket basket.

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The USSR is now operating under the Seven Year Plan, which blueprints industrial developments through 1965. This plan, which we might think of as the Soviet economic order of battle, establishes the formidable task of increasing industrial production 80 per cent in seven years. The achievement of these goals now seems not only probable, but overfulfillment is likely. In fact just yesterday they announced that the plans goals for seven years could be attained in six. Particularly in the basic industrial materials and producers' goods fields, we can expect that the present gap in industrial output between the U. S. and the USSR will be narrowed.

We would agree with the delegation that the search for investment efficiency is a long way from meeting complete success. In fact, there is very real doubt that the Soviet Union has been putting into place as much industrial capacity as would be the case if an equivalent sum were spent for plant and equipment in the United States.

There have been a number of reasons for this, beginning with the traditional method of rewarding plant managers - that is, primarily through a bonus system tied solely to the quantity of physical production reached by their plants during a given time period. This meant that costs of production were not of much importance in managerial decisions.

Not only was the production of obsolescent equipment continued, but a very large proportion of the total inventory of machinery was not (and indeed, still is not) on production lines. For example, an article in the Soviet journal, Voprosy Ekonomiki, early in 1960

stated that over half of the USSR's total stock of metal-cutting machine tools was used exclusively for the repair of equipment and for producing a few specialized bits of tooling. The article noted that this practice involved nearly a million machine tools, and went on to say,

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"Consequently one-half of the workers of our industry and a stock of machines which is equal to that which services the basic production of the country's entire metalworking industry are diverted from basic production operations and are therefore not used in the manufacture of process equipment. These machines are much less intensively utilized than equipment in basic production."

The article went on to point out the reduction in the capital investment to output ratios that would be possible under more efficient arrangements.

The inefficient utilization of production equipment that you saw in the plants covered during your visit extend over their entire industrial economy, by the Soviets' own admission.

In viewing this problem, we in CIA have been impressed by the fact that the Soviet leadership is not only well aware of it, but is also taking vigorous corrective steps.

The Central Committee of the Communist Party met on this broad problem of efficiency in June of 1959 and again in July of this year. A number of specific reforms have been undertaken this year, or are to be introduced in the next few months. They include:

1. Bonus arrangements for plant managers are now tied to reducing production costs, and in some cases to

the quality of the product. Bonuses previously paid solely for fulfilling the physical production plan have been discontinued.

2. To stimulate research and development on new high performance equipment, all experimental costs on such machines, up to the stage where they go into series production, are no longer paid for by the enterprise doing the development work. All these costs are now paid for out of a special fund, administered from the center at Moscow. This will have the effect of reducing sharply prices on new equipment as well as stimulating its development and production. As your delegation pointed out, a Soviet claim to "be abreast of the latest U. S. technology" frequently meant nothing more than this information is being locked up in the files of a central research institute.

3. Large bonuses are now available to reward plant personnel who are directly connected with the "creation and introduction" of new technology. The size of the bonuses is computed by a complicated measurement of the cost reduction achieved through the introduction of the new technology, not only in the plant making the innovation, but also estimating the savings made elsewhere in other facilities where the innovation can be adopted.

4. At least 20 percent of what is called the "Enterprise fund," which essentially is a plant's retained earnings, must now be spent for the introduction of new technology, modernization of equipment, etc.

5. Finally, this year the Central Committee of the Party assigned to the State Committee for Automation and Machine Building, and other top government agencies, the task of accelerating the planned conversion of some 50 to 80 existing plants, engaged in almost every industrial activity, into what are called "experimental-model" showplaces of the achievements in mechanization and automation.

These incentives to promote greater technological advances and managerial efficiencies, as important as they are, are not the end of the line. We can expect that there will be other measures introduced next year and in the years to come, as the Soviets strive for increased efficiency to maintain a high rate of economic growth, and even increase it, if this is possible.

The Long Haul -- Beyond 1965

I should like to close with a few thoughts about the long haul, the years beyond 1965.

As the prospects for early fulfillment of the Seven Year Plan have improved, the USSR has shortened the time horizon it believes necessary to overtake the US economy in some sense. Late last month (26 October) Tass announced that the USSR will surpass the overall industrial output by 1967-68. The previous target date had been 1970. This seemingly absurd prediction is based on assumptions only one of which is egregiously false - to wit that Soviet Industrial output is now 60% of that of the US. If durable consumer goods are counted the correct figure is approximately 40%.

The rate of growth they project for themselves is 11%. We have worked over this in an attempt to adjust it to a basis consistent with our own FRB index and conclude that $8\frac{1}{2}$ to 9% would be close to the mark.

As to our ^{own} growth rates (none of CIA's business) it all depends on what years you select to determine the basic slope. The Russians use 1953-59 and give us a mere 2.4%.

If we correct the data on the first point - the present ratio of industrial production, and use our best judgment on Soviet future rates and assume the US will continue at the 53-59 rate, then the lines cross in ¹⁹⁷³ ~~1975~~. Even if we step up our anticipated growth to equal this 47 - 59 achievement 4% the date is put off only to the end of the 1970's. The USSR exaggerates by perhaps a decade its prospects in the economic race with the United States. This fact, however, should not blind us to the firmly held faith of the present leadership in their ability to achieve economic supremacy; what in their view of history is a very short span of time, nor to the very real considerations of international power and prestige which make the goal a compelling target. Obvious possibilities for slow down in their rate - but all through 1950's skeptics have been looking in vain for such a development. In view of their political power to continue to implement a policy of intensive investment - it would in my opinion be imprudent in the extreme to anticipate any material decline in growth rate as inherent in a large economy.

Soviet planners are currently working on the shape of economic things to come, a long-term plan for the next twenty years which may be unveiled early next year at the 22nd Party Congress in Moscow.

A few key production goals have already been announced. While these goals are necessarily tentative, they present an impressive picture. For example, the 1980 steel goal is 265 million tons, which will be significantly higher than one would expect the US to reach by 1980, based on our projection of 1946 to 1960 trends.

As nearly as one can forecast at this time, the Soviet intent is to push hard down the path of industrial expansion until they take over first place from the US.

By any reasonable calculation the USSR will have reached the stage of economic maturity by the decade of the 1970's.

It can have steel, cement, machine tools, electric current literally running out its ears.

What will it do with this abundance?

Walt ^{ROSTOW}~~Rostow~~ suggests the choice will lie simply between high consumption and military adventure.

Dealing ^{first} ~~just~~ with the latter--we can see no evidence unless the views of Peking prevail over those of Moscow to indicate opting for maximum military buildup and a course of conquest but we can't be sure.

In recent years, Soviet military expenditures in ruble terms has remained virtually constant and now uses up a little less than 10% of GNP. If their prices were not so biased in favor of the government procurement from heavy industry the percentage would, of course, be higher--say ^{12-13%} ~~15-16%~~. Thus they can either have the same absolute military investment for say 5-7½% of GNP or by maintaining the proportion double their annual military outlay.

Any way we look at it, it seems most far fetched to expect the military sector to absorb a higher percentage of a 500-billion dollar economy.

Massive aid to underdeveloped countries is another possibility. Today the net drain of Soviet credits to underdeveloped areas is running at not over \$500,000,000 a year or about 1/4 of 1% of GNP. Quite conceivably they could undertake programs 20 times this size

emphasizing rugged simple producers' goods discussed by George Terborgh. China will still have an insatiable appetite for such and as a means toward political domination of South Asia, Africa, and Latin America, such a program will certainly appeal to the Soviet leaders. But even such a 10-billion-dollar program would only eat up 2 1/2 percent of GNP.

So it would seem that the long neglected Soviet consumer will have to receive the lion's share of the benefit. From various statements of Soviet writers and Khrushchev himself, it appears that satisfying the Soviet consumer will be along lines far different than those developed under our free market system.

Private autos are to be scratched in favor of huge taxi pools.

Domestic machinery so dear to the American housewife will be substituted for by restaurants, laundromats, etc.

Apartments will prevail over detached houses.

The whole pattern will, if present views prevail, be strictly along papa-knows-best lines. Austere standards will be dignified by being called "scientific norms." Stressing "what man really needs for the best possible life on earth" as determined by an all-wise party aristocracy.

Further clues are expected from the XXIII party congress early next year which is expected to reverse and expand existing dogma on the final stage of progress from socialism into communism.

What then are the chances that the determination and stamina of the Communist leadership will weaken, that its singleminded drive for economic superiority will give way to welfare aims, that its conviction of riding the wave of historical inevitability will change to doubt?

I cannot even hazard an answer, but certainly the chances of this occurring depend in part on what we do ourselves.

Specifically, I would expect the demonstration that, as a result of accelerated U. S. growth, the fulfillment of the "overtaking and surpassing" goal of the Kremlin was being pushed off at least into the next century could greatly strengthen the hand of those Russians who would prefer a "more now" policy for their own long-suffering consumers, and might weaken the disposition of the Soviet leadership to continue the headlong ^{pace} ~~pace~~ of economic growth. The locus of decision then is as much in New York, Pittsburgh, Chicago, and Washington as it is in Moscow.